

BANK INDONESIA REGULATION
NUMBER: 8/6/PBI/2006
CONCERNING
IMPLEMENTATION OF CONSOLIDATED RISK MANAGEMENT
FOR BANKS PERFORMING CONTROL ON SUBSIDIARY COMPANIES

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas the continuity of bank's business activity is affected by risks arising directly from its business activities or indirectly from its subsidiary companies' business activities;
 - b. whereas in order to manage risk exposure, bank must implement consolidated risk management;
 - c. whereas in implementing consolidated risk management, bank must be able to identify, measure, monitor, and control risks arising from both the bank's and from its subsidiary companies' business activities;
 - d. whereas in implementing consolidated risk management bank must also ensure that the prudential principles implemented by the bank in performing its business activities are also implemented by its subsidiary companies;
 - e. whereas the implementation of consolidated risk management by bank performing control on subsidiary companies is one of the principles of international standards;

f. whereas...

- f. whereas based on considerations referred to in letter a to letter e, it is considered necessary to regulate the implementation of consolidated risk management for banks performing control on subsidiary companies in a Bank Indonesia Regulation;

In view of:

1. Act Number 7 Year 1992 concerning Banking (State Gazette of the Republic of Indonesia Year 1992 Number 31, Supplement to State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 Year 1998 (State Gazette of the Republic of Indonesia Year 1998 Number 182, Supplement to State Gazette of the Republic of Indonesia Number 3790);
2. Act Number 23 Year 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Year 1999 Number 66, Supplement to State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 Year 2004 (State Gazette of the Republic of Indonesia Year 2004 Number 7, Supplement to State Gazette of the Republic of Indonesia Number 4357);

H A S D E C I D E D:

To enact: BANK INDONESIA REGULATION CONCERNING
IMPLEMENTATION OF CONSOLIDATED RISK
MANAGEMENT FOR BANKS PERFORMING CONTROL
ON SUBSIDIARY COMPANIES

CHAPTER I
GENERAL PROVISIONS

Article 1

In this Bank Indonesia Regulation, the following terminologies shall have the following meanings:

1. Bank shall be Commercial Bank referred to in Act Number 7 Year 1992 concerning Banking as amended by Act Number 10 Year 1998, including branch offices of foreign banks.
2. Subsidiary Company shall be a legal entity or a company owned or controlled directly or indirectly by a Bank, domiciled either in or outside Indonesia, and fulfills the criteria referred to in this Bank Indonesia Regulation.
3. Control shall be Control referred to in Bank Indonesia Regulation concerning Transparency in Bank Financial Condition.
4. Minimum Capital Adequacy Requirement, hereinafter referred to as CAR, shall be CAR referred to in Bank Indonesia Regulation concerning Minimum Capital Adequacy Requirement for Commercial Banks and Minimum Capital Adequacy Requirement for Sharia Based Commercial Banks.

5. Legal Lending Limit, hereinafter referred to as LLL, shall be LLL referred to in Bank Indonesia Regulation concerning Commercial Bank Legal Lending Limit.

Article 2

- (1) Banks owning and or performing Control on Subsidiary Companies must implement consolidated risk management.
- (2) The implementation of consolidated risk management referred to in paragraph (1) shall not be valid for Subsidiary Companies owned and or controlled by the Bank due to temporary equity participation for loan restructuring purpose.

Article 3

Subsidiary Companies referred to in Article 2 Paragraph (1) shall be companies performing financial business activities, which consist of the following :

- a. Subsidiary Company, namely Subsidiary Company in which the Bank's ownership is more than 50% (fifty percent);
- b. Participation Company, namely Subsidiary Company in which the Bank's ownership is 50% (fifty percent) or less, but the Bank has Control on the company;
- c. Companies in which the Bank's ownership is between 20% (twenty percent) to 50% (fifty percent) and fulfill the following criteria :
 - i. the Bank and the other parties in the Subsidiary Company have equal portion of ownership ; and
 - ii. each owner performs joint Control on the Subsidiary Company;
- d. Other entities which must be consolidated pursuant to prevailing Financial Accounting Standard.

Article 4

In case the Bank owns and or controls a Subsidiary Company performing insurance business activity :

- a. the implementation of consolidated risk management referred to in Article 2 paragraph (1) shall be done by way of evaluation and submission of report on the insurance company's risk management implementation separately ;
- b. provisions referred to in Article 6, Article 7, Article 8, Article 9, Article 10, Article 12, Article 13, Article 16 and Article 18 shall not be implemented.

CHAPTER II

INFORMATION SYSTEM AND REPORTING

Article 5

- (1) Each Bank must have systems that are able to identify, measure, monitor and control the business risks of the Bank and the Subsidiary Companies in order to be able to effectively implement consolidated risk management.
- (2) The systems referred to in paragraph (1) shall at least include:
 - a. Accounting information system; and
 - b. Risk management information system.

CHAPTER III

CAR CALCULATION

Article 6

Each Bank must fulfill CAR regulation for the Bank on individual basis and for the Bank and the Subsidiary Companies on consolidated basis.

Article 7

Each Bank shall calculate risk weighted assets for the Subsidiary Companies' risk exposure pursuant to prevailing Bank Indonesia Regulation.

CHAPTER IV ASSET QUALITY EVALUATION

Article 8

For the purpose of consolidated financial report preparation and CAR calculation, each Bank must evaluate asset quality and form allowance for asset losses for all assets owned by the Subsidiary Companies at least according to prevailing Bank Indonesia Regulations.

CHAPTER V LLL CALCULATION

Article 9

- (1) Each Bank must fulfill the LLL regulation for the provision of funds by the Bank on individual basis and for the provision of funds by the Bank and the Subsidiary Companies on consolidated basis.
- (2) In calculating the LLL for the provision of funds by the Bank and the Subsidiary Companies on consolidated basis :
 - a. the provision of funds from Subsidiary Companies to the Bank's debtors must be calculated as a unity with the provision of funds by the Bank;
 - b. capital components shall use the capital on consolidated basis.

Article 10

Bank's equity participation in Subsidiary Companies in which the Bank implements consolidated risk management shall not be calculated as provision of funds in LLL calculation.

CHAPTER VI

MANAGEMENT OF SUBSIDIARY COMPANIES

Article 11

- (1) Each Bank is obligated to ensure that the management of the Subsidiary Companies possesses good integrity.
- (2) The obligation referred to in paragraph (1) shall not be valid for management of Subsidiary Companies referred to in Article 3 letter c.
- (3) In order to meet the provisions referred to in paragraph (1), the Bank shall submit to Bank Indonesia the list of prospective management members of the Subsidiary Company as proposed to the General Meeting of Shareholders.
- (4) The report referred to in Paragraph (3) shall be submitted no later than 10 (ten) working days before the General Meeting of Shareholder is held.
- (5) Other than fulfilling the provision referred to in paragraph (3), the Bank shall submit the name list of the Subsidiary Company's members of management at the end of December 2006.

CHAPTER VII
BANK SOUNDNESS RATING AND RISK PROFILE EVALUATION

Article 12

- (1) The Bank shall evaluate the soundness rating on individual and consolidated basis.
- (2) In case of different business characteristics between the Subsidiary Company and the Bank, the certain components in the Bank's soundness rating evaluation may be adjusted for soundness rating evaluation on consolidated basis.

Article 13

- (1) The Bank shall prepare and submit a risk profile report on individual and on consolidated basis.
- (2) In case of different business characteristics between the Subsidiary Company and the Bank, then certain risk measurement parameters used in preparing the Bank's risk profile may be adjusted for preparing the risk profile on consolidated basis.

CHAPTER VIII
SUBSEQUENT ACTION FOR SUPERVISION
AND DESIGNATION OF BANK STATUS

Article 14

Bank Indonesia Regulation concerning Subsequent Action for Supervision and Designation of Bank Status applicable for Bank on individual basis may also be applied for Bank on consolidated basis.

Article 15

In applying the provision referred to in Article 14 for Banks fulfilling the criteria for business license revocation on consolidated basis, Bank Indonesia will work together with relevant supervisory authorities.

CHAPTER IX

REPORTING

Article 16

- (1) Each Bank must submit the financial report of Subsidiary Companies online pursuant to the format and regulations stipulated by Bank Indonesia.
- (2) The reporting referred to in paragraph (1) shall refer to prevailing Bank Indonesia regulation concerning Commercial Bank Monthly Report or Commercial Bank Periodical Reports.
- (3) Insofar as online reporting referred to in paragraph (1) and paragraph (2) is still not possible, the Bank must submit quarterly reports offline for March, June, September and December positions, which shall cover :
 - a. Financial report of each Subsidiary Company.
 - b. Consolidated financial report
 - c. Report on CAR calculation and detail of risk weighted assets on consolidated basis.
 - d. Report on LLL calculation on consolidated basis.
- (4) The reports referred to in paragraph (3) must be submitted no later than on the 15th day of the second month after the end of the reporting month.
- (5) In case the 15th day falls on a Saturday/Sunday/Holiday, then the reports must be submitted on the previous working day.
- (6) The consolidated risk profile report referred to in Article 13 and report on

the...

the evaluation of risk management implementation in insurance company referred to in Article 4 must be submitted quarterly for March, June, September and December positions.

- (7) The reports referred to in paragraph (6) must be submitted no later than 30 (thirty) days after the end of the reporting month.
- (8) Each Bank must submit reports referred to in paragraph (3) and paragraph (6) to Bank Indonesia at the following addresses :
 - a. relevant Directorate of Bank Supervision, Jl. M.H. Thamrin No.2 Jakarta 10110, for a Bank whose head office is in the working area of Bank Indonesia Head Office ; or
 - b. relevant Bank Indonesia Office, for a Bank whose head office is outside the working area of Bank Indonesia Head Office.

CHAPTER X

SANCTIONS

Article 17

- (1) Banks not fulfilling the obligations referred to in Article 2, Article 5, Article 6, Article 7, Article 8, Article 9, Article 11, Article 12, and Article 13 will be imposed with sanctions pursuant to related prevailing regulations and may be imposed with administrative sanctions such as:
 - a. written warning;
 - b. freezing of certain business activities;
 - c. inclusion of the Bank's management and or shareholders on the list of people disqualified to be Bank's management and or shareholders , referred to in Article 52 of Act Number 7 Year 1992 concerning Banking as amended by Act Number 10 Year 1998.
- (2) Banks submitting the reports after the submission deadline referred to in

Article 16 paragraph (4) and paragraph (7) up to 14 (fourteen) working days after the deadline will be imposed with payment obligation sanction of Rp1,000,000.00 (one million rupiahs) for each working day of the delay.

- (3) Banks that have not submitted or submitted the reports after the submission deadline referred to in paragraph (2), will be imposed with payment obligation sanction of Rp50,000,000.00 (fifty million rupiahs).
- (4) Banks that have not submitted the reports after the submission deadline referred to in paragraph (2) are still obligated to submit reports referred to in Article 16.

CHAPTER XI

MISCELLANEOUS PROVISIONS

Article 18

An increase in the Bank's equity participation due to accumulated profits of Subsidiary Companies in which the Bank implements consolidated risk management shall not be included in calculating the Bank's limit on equity participation portfolio.

Article 19

Further provisions of this Bank Indonesia Regulation shall be stipulated in a Bank Indonesia Circular Letter.

CHAPTER XII

CLOSING PROVISIONS

Article 20

- (1) Bank's obligation to submit reports referred to in Article 11 Paragraph (3)

and...

and Article 16 shall start to take effect for end of December 2006 position report.

- (2) Bank's obligation to evaluate soundness rating and prepare risk profile on consolidated basis referred to in Article 12 and Article 13 and reporting obligation referred to in Article 16 Paragraph (6), shall start to take effect for end of December 2008 position report.
- (3) Other than fulfilling obligations referred to in paragraph (2), implementation of payment obligation sanction referred to in Article 17 paragraph (1) and implementation of provisions in Article 10, Article 14, Article 15 and Article 18, shall start to take effect for end of December 2007 position report.

Article 21

This Bank Indonesia Regulation shall start to take effect on the day of its enactment.

Enacted in Jakarta

On January 30, 2006

GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA YEAR 2006

NUMBER 8

DPNP

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 8/6/PBI/2006
CONCERNING
IMPLEMENTATION OF CONSOLIDATED RISK MANAGEMENT
FOR BANKS PERFORMING CONTROL ON SUBSIDIARY COMPANIES

GENERAL

Banks are always faced with risks attached in each of its business activity. The attached risks may come from the Bank's activities and from Bank related companies.

Meanwhile, the financial transaction development in the globalization era had caused increased integration of financial products and services offered by Banks. The increasingly integrated financial products and services had made the risks faced by the Banks even more complex and increasing.

In facing the condition, each Bank must consider all risks which may affect its business continuity. The risks to consider shall include risks which may directly and indirectly affect the business continuity of the Bank, both coming from Subsidiary Companies and the business group.

As an initial step to measure risks on a more consolidated basis, each Bank is expected to implement consolidated risk management in Subsidiary Companies under its control. Risk Management implementation in Subsidiary Companies is also aimed to increase the competitiveness of Indonesian banks on the international level, since this will count as a fulfillment of international standard for Banks.

ARTICLE BY ARTICLE

Article 1

Self explanatory

Article 2

Paragraph (1)

Consolidated Risk Management implementation shall refer to prevailing Bank Indonesia regulation concerning Risk Management implementation for Commercial Banks, which shall cover :

- a. active supervision from the Board of Commissioners and the Board of Directors;
- b. adequacy of policies, procedure and establishment of limits;
- c. adequacy of risk identification, measurement, and controlling processes as well as the risk management information system ;
and
- d. comprehensive internal control system.

Paragraph (2)

Self explanatory

Article 3

Financial business activities are, among others, banking, leasing, venture capital, securities company, insurance company, finance company, and clearing, settlement, and depository company.

letter a

Self explanatory

Letter b ...

letter b

Self explanatory

letter c

number i

Self explanatory

number ii

The meaning of Joint Control is the control performed jointly by owners of the Subsidiary Company based on a contractual agreement.

Joint Control must be proven by a written agreement or commitment from owners to provide financial and non financial support in line with each owner's portion of shares.

letter d

Self explanatory

Article 4

Insurance companies have significantly different risk characteristics from Banks. Therefore, consolidated risk management evaluation shall not be implemented especially for quantitative aspects.

Letter a

Evaluation shall refer to regulations stipulated by competent authority.

Letter b

Self explanatory

Article 5

Paragraph (1)

Self explanatory

Paragraph (2)

Letter a

Accounting Information System shall among others cover the system which is able to produce financial report, CAR calculation, asset quality calculation, and allowance for asset write off formation, LLL calculation which consider all exposures by the bank and by the Subsidiary Companies on consolidated basis, and soundness rating evaluation on consolidated basis.

Preparation of consolidated financial report shall refer to prevailing Financial Accounting Standard.

Letter b

Risk Management Information System shall refer to prevailing Bank Indonesia regulation concerning Risk Management implementation for Commercial Banks.

Article 6

CAR calculation on consolidated basis shall be made by calculating capital and risk weighted assets from the consolidated financial report.

Pursuant to the provision in this paragraph, the percentage of Bank CAR as stipulated in prevailing Bank Indonesia regulation concerning CAR for Commercial Banks and CAR for Sharia Based Commercial Banks shall also be implemented for consolidated basis.

Equity participation in companies that are exempt from CAR regulation on

consolidated ...

consolidated basis shall still be calculated as a capital subtracting factor in calculating CAR on consolidated basis.

For calculating CAR of the Bank on individual basis, equity participation at Subsidiary Company consolidated shall still be calculated as a capital subtracting factor as stipulated in prevailing Bank Indonesia regulation concerning CAR for Commercial Banks and CAR for Sharia Based Commercial Banks.

Article 7

For example, Banks that are obligated to calculate market risk and has a Subsidiary in the form of a securities company, the risk weighted asset calculation on consolidated basis for market risk shall also cover the calculation of equity risk of the securities companies.

Article 8

Provisions in this paragraph is aimed to enable more accurate preparation of consolidated financial report and CAR calculation in line with expected risks.

Article 9

Paragraph (1)

Pursuant to the provision in this paragraph, the LLL percentage for Bank on individual basis as stipulated in the prevailing regulation concerning the Legal Lending Limit for Commercial Banks shall also be applied for the consolidated basis.

Paragraph (2)

Self explanatory

Article 10

Self explanatory

Article 11

Paragraph (1)

Good integrity shall among others be proven by the fact that the management of the Subsidiary Company is not listed on Bank Indonesia's Disqualified People or Bad Debtor List.

The meaning of management of the Subsidiary Company is the Board of Commissioners and Board of Directors for Limited Liability Companies or other equivalent positions at other form of legal entities.

Paragraph (2)

Self explanatory

Paragraph (3)

Self explanatory

Paragraph (4)

Self explanatory

Paragraph (5)

Self explanatory

Article 12

Paragraph (1)

Evaluation of soundness rating on consolidated basis shall refer to prevailing Bank Indonesia regulation concerning Soundness Rating

Evaluation for Commercial Banks.

Soundness rating evaluation shall cover quantitative and qualitative evaluation.

Quantitative evaluation shall be evaluation on the position, development, and projections of financial ratios.

Qualitative evaluation shall be evaluation on factors supporting the result of the qualitative evaluation, implementation of risk management, and compliance.

Paragraph (2)

Self explanatory

Article 13

Paragraph (1)

The preparation of consolidated risk profile report shall refer to prevailing Bank Indonesia regulation concerning Risk Management Implementation for Commercial Banks.

Paragraph (2)

Self explanatory

Article 14

The parameters used in prevailing Bank Indonesia regulation concerning Subsequent Action for Supervision and Designation of Bank Status are, among others, the Capital Adequacy Ratio and the ratio of problem loans calculated on consolidated basis.

Article 15

Self explanatory

Article 16

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Letter a

The submitted financial report of Subsidiary Company shall have fulfilled the provisions referred to in Article 8.

Letter b

Self explanatory

Letter c

Self explanatory

Letter d

Self explanatory

Paragraph (4)

Self explanatory

Paragraph (5)

Self explanatory

Paragraph (6)

The submission of the Bank's risk profile report on individual basis shall still refer to Bank Indonesia regulation concerning Risk Management Implementation for Commercial Banks.

Paragraph (7)

Self explanatory

Paragraph (8)

Self explanatory

Article 17

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Banks already imposed with a payment obligation sanction in this paragraph shall not be imposed with the sanction referred to in paragraph (2).

Paragraph (4)

Self explanatory

Article 18

Limitation on Bank's equity participation shall refer to Bank Indonesia regulation concerning Prudential Principles in Equity Participation.

The accumulated profits of Subsidiary Companies which are not calculated in the limit of the Bank's equity participation portfolio shall not be subject to time limit.

Article 19

Self explanatory

Article 20

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Self explanatory

Article 21

Self explanatory